Canadian Merrill Ltd.

1975 annual report

Canadian Merrill Ltd.

Incorporated Under the Laws of the Province of Quebec

DIRECTORS

MATHEW M. BALDWIN,
Edmonton, Alberta
Executive Vice-President of the Company
President of Baldwin & Knoll Limited

KENNETH S. DALTON,
Toronto, Ontario
Vice-President, Finance of Hudson Bay Mining and Smelting Co., Limited

JEAN DEBRAY,
Montreal, Quebec
Vice-President, Petroleum of Hudson Bay Mining and Smelting Co., Limited

ADRIAN M. DOULL,
Toronto, Ontario
Vice-President of Hudson Bay Mining and Smelting Co., Limited

V. LYLE HAWKES,
Edmonton, Alberta
Senior Vice-President of the Company
President of L & M Oilfield Equipment Ltd.

RANDOLPH P. MILLS
Montreal, Quebec
Honorary Chairman of the Company

HUBERT J. MOCKLER,
Toronto, Ontario
Chairman of the Board of the Company

HORACE REKUNYK,
Calgary, Alberta
President and Chief Executive Officer of the Company

OFFICERS

RANDOLPH P. MILLS
Honorary Chairman of the Board

HUBERT J. MOCKLER
Chairman of the Board

HORACE REKUNYK
President and Chief Executive Officer

MATHEW M. BALDWIN
Executive Vice-President

V. LYLE HAWKES
Senior Vice-President

CHARLES W. TEMPLETON
Vice-President

G. BARRY PADLEY, C. A.
Vice-President, Finance and Secretary

WILLIAM C. MILLS
Assistant Secretary

EDWARD W. WATT
Mine Manager

The 24th Annual Report to June 30, 1975

Comparative Highlights

Financial (in dollars)	1975	1974	Increase Per Cent
Revenue by Source:			
Oil and gas	$ 4,554,000	$ 2,486,000	83.2
Mining and milling	183,000	480,000	(61.9)
Well servicing	5,022,000	4,840,000	3.8
Rental and sales of equipment	2,543,000	2,970,000	(14.3)
Interest and other income	157,000	190,000	
	12,459,000	10,966,000	13.6
Deduct: Inter-company revenues	389,000	703,000	(44.7)
Gross Revenue	12,070,000	10,263,000	17.6
Cash Flow from operations	2,126,000	2,203,000	(3.5)
Per Share	1.06	1.09	
Income before extraordinary items	437,000	650,000	(32.8)
Per Share	.22	.32	
Net income for the year	495,000	388,000	27.6
Per Share	.25	.19	
Capital expenditures	13,482,000	2,304,000	485.2
Working capital	(1,029,000)	1,134,000	
Total assets	29,449,000	19,583,000	50.4
Weighted average of shares outstanding during the period	2,013,920	2,013,920	—
Operating			
Natural Gas Production, net before royalties			
Total — million cubic feet	7,068	5,482	28.9
Daily average — million cubic feet	19.4	15.0	
Oil Production, net before royalties			
Total — barrels	181,245	204,695	(11.5)
Daily average — barrels	497	561	
Number of net productive wells			
Gas	88.2	63.1	39.8
Oil	58.9	51.8	13.7
Acreage Holdings			
Gross	806,037	3,232,219	(75.1)
Net	362,717	604,747	(40.0)

Report to the Shareholders

Canadian Merrill has adopted a policy of directing substantially all of its resources into the acquisition, exploration and production segments of the oil and gas industry. With the establishment of this priority, the Company placed its major emphasis on increasing its participation in these areas of operations during the 1975 fiscal year.

During the last two years, Governments have exercised increasing regulatory control over the oil and gas industry and have also acquired a greater share of resource revenues through increased royalties and taxes. These policies have resulted in a substantial reduction in industry activity, particularly in the area of exploration required to discover new reserves. Recently, the Canadian Federal and Alberta Provincial Governments introduced measures that should provide the industry with some incentives which will enable it to continue exploration and to further develop proven reserves.

The Company believes that the expansion of its oil and gas interests is merited by the now established long-term trend toward higher product prices and by the improved attitude of the Federal and Provincial Governments that now encourages exploration in Canada.

Accordingly, your Company acquired additional oil and gas reserves in Alberta during the past year which will substantially increase its future cash flow. On April 11, 1975, Merrill purchased oil and gas properties from a number of the participants in eight drilling fund programs sponsored by its subsidiary company, Provident Resources Ltd. The properties, representing estimated gross reserves of approximately 79 billion cubic feet of gas and 400,000 barrels of oil, were purchased for $7,500,000. A $6,600,000 6-year production loan was arranged with Merrill's bankers to assist in financing this purchase. The acquisition of these properties resulted in a material addition to the asset value of the Company which is reflected in the accompanying consolidated financial statements.

The Company's well servicing division has experienced a reduction in activity which we believe is primarily due to the Federal Government's restriction on petroleum exports. In addition, increases in service rates have not been sufficient to offset increased operating costs thereby resulting in declining profits in this division.

As a result of Merrill's decision to concentrate its activities in the direct ownership of oil and gas properties and the declining well servicing and rental profits, the Company is disposing of its well servicing and equipment sales and rental divisions. Accordingly, 24 rigs have been sold to mid-October for approximately $3,000,000. Merrill is concluding negotiations for the sale of the remaining well servicing and equipment rental assets which it anticipates will result in aggregate sale proceeds of approximately $7,300,000.

The proceeds received from the sale of the assets of the well servicing and equipment rental divisions will allow the Company to reduce its long term bank debt and will provide a surplus available for capital expenditures. In addition, Merrill has an unused bank line of credit of approximately $3,000,000. These funds will provide the Company with sufficient working capital to carry out an expanding oil and gas program.

A review of the year's operating results indicates that Merrill's gas production increased 29% to 7,068 million cubic feet while oil production declined 11% to 181,245 barrels in fiscal 1975.

Gross revenue increased 18% to $12,070,000 principally as a result of increased gas production combined with higher product prices. Cash flow from operations decreased by 3.5% to $2,126,000 primarily due to higher costs in the well servicing operations and the reduction in custom milling revenues. Net income following extraordinary items in 1975 increased 27.6% to $495,000 ($0.25 per share) from $388,000 ($0.19 per share) in 1974.

During the past year, Merrill's gas production was sold at an average price of 41.7¢ per thousand cubic feet. The Canadian and Alberta Governments recently reached an agreement on gas pricing which will result in an effective wellhead price to the producer estimated to be 95¢ per thousand cubic feet effective

November 1, 1975. This will materially increase the Company's production revenues during the second half of the 1976 fiscal year.

It was also announced that gas prices will continue to increase to reach a commodity price equivalent to oil within a period of 3 to 5 years.

The Company's field operations during 1975 have concentrated on the plant and pipeline construction required to place its shut-in gas reserves on production. The Edwand gas reserves contracted to Greater Winnipeg Gas Company went on stream in January, 1975 and substantially all of Merrill's remaining producible reserves will be on stream by December, 1975. The Company's 1975 drilling activity increased to 38 wells, including 30 gas wells and one oil well, compared with 34 wells drilled last year. However, the 1975 drilling was principally limited to shallow wells drilled to develop proven reserves and included only 4 exploratory wells compared with the 30 exploratory wells drilled in the 1974 fiscal year. The reduction in the Company's exploratory drilling was due to the uncertainty that existed last year throughout the Canadian oil and gas industry.

Merrill's contract milling operation in Chibougamau terminated in July, 1975 with the final depletion of the copper reserves in the Icon Sullivan Joint Venture mine. Merrill has retained its interest in the milling and related facilities located in Chibougamau and is continuing a limited exploration program in the LaSarre area of Quebec.

Prior to the approval of Merrill as a participant in the Block 4 exploration contract in northern Peru, the Peruvian Government imposed conditions on Merrill which made the operation impractical. Accordingly, Merrill withdrew from this exploration project and recovered $1,047,000 in escrow deposits out of the Company's $1,075,000 investment.

Hudson Bay Mining & Smelting Co., Limited holds the Company's $4,000,000, 15-year, 6½% secured convertible income debenture. Following the current fiscal year-end, Hudson Bay reported that it had increased its common share equity interest in the Company from 23% of the outstanding shares to 29% through the purchase of an additional block of shares.

The Company's exploration activities in Western Canada will be expanded primarily in gas prone areas as a result of the incentives offered by the Provincial and the Federal authorities. The most significant of these is the redistribution of the proceeds from the Federal export tax on gas. In addition, Merrill will maintain an active exploration program in the United States and other areas offering maximum economic opportunities.

The Directors wish to acknowledge the valuable services rendered to the Company by Messrs. R. P. Mills, H. J. Mockler and M. M. Baldwin who will not be standing for re-election as Directors. Mr. Mills, in particular, has served the Company as a Director since 1954 and his experienced counsel will be missed.

Your Directors also wish to express their appreciation to the employees of the Company for their loyal services during the past year.

Respectfully submitted on behalf of the Board of Directors.

H. ReKunyk

H. ReKunyk,
President and
Chief Executive Officer

October 16, 1975
Calgary, Alberta

Operations

Oil and Gas

The Company's 1975 drilling program totalled 38 wells (8.6 net wells) compared with 34 wells (3.8 net wells) in the previous year. The 1975 drilling resulted in 30 gas wells, one oil well and 7 dry holes. However, in the 1975 fiscal year only 4 exploratory wells were drilled compared with 30 in 1974. Merrill's exploratory drilling activity was limited in the past year but should increase in the future as the result of new government incentives to exploration companies.

For the past 7 years, Merrill's subsidiary, Provident Resources Ltd., has operated drilling funds in Canada financed by United States investors. However, Provident did not sponsor a drilling fund program in the past year since revisions in United States tax laws and the higher product prices and lower royalties in the United States made investment in Canadian drilling funds less attractive. At the same time, the uncertainty prevailing in the Canadian oil and gas industry created an unsuitable environment for potential United States investment.

Merrill, together with its subsidiary companies, held interests in 156 gross gas wells (88.2 net wells) and 243 gross oil wells (58.9 net wells) at June 30, 1975. The net wells increased during the past year as the result of successful drilling and Merrill's purchase of Limited Partner interests in the Provident Oil and Gas Drilling Funds. The producing wells are located in the provinces of Alberta, British Columbia and Saskatchewan and the states of Louisiana, Montana, Texas, West Virginia and Wyoming.

Merrill's gas production, before royalties, increased to 19.4 million cubic feet per day in 1975 from 15.0 million cubic feet per day last year. This increase results, in part, from the purchase of additional reserves from the Provident Drilling Fund Programs effective January 1, 1975. It also includes production from new reserves placed on stream prior to year-end. Substantial additional reserves will be placed on production in the new fiscal year.

Merrill's share of oil production, before royalties, in 1975 was 497 barrels per day compared with 561 barrels per day in 1974. The lower production in 1975 resulted from reduced allowable rates in the Peco oilfield in Alberta. Recent oil

DRILLING

	1975	1974	1973
Gross Wells	**38**	34	44
Net Gas Wells	**6.4**	3.2	8.4
Net Oil Wells	**.6**	.1	1.5
Net Dry Holes	**1.6**	.5	2.0

production has averaged over 600 barrels per day as a result of well workovers and the completion of a new oil well in the Homestead field, Wyoming.

In 1975, the average price per thousand cubic feet that Merrill received for its Canadian gas production was 41.7¢ compared with 22.5¢ in the previous year. This average will increase substantially in the 1976 fiscal year as the gross return to the producer at the wellhead will increase to an estimated 95¢ per thousand cubic feet effective November 1, 1975.

The average oil price received by Merrill increased to $7.84 per barrel this year from $4.94 in 1974. This price is influenced by the Company's United States production, some of which sells for $12 per barrel. Effective July 1, 1975, the price of Canadian crude oil increased to $8.00 per barrel from the previous level of $6.50 per barrel. The $1.50 per barrel increase is subject to a provincial royalty of 50%.

Merrill's operations in 1975 are summarized below:

ALBERTA

Merrill completed the gas processing plant and the installation of the initial gathering system in the Edwand gas field. These properties went on production in January, 1975 with 11 wells tied into the plant. Current production is averaging 10 million cubic feet of gas per day.

In the Bolloque area, the Company holds interests in 12,800 acres. During the 1975 fiscal year and immediately following year-end, Merrill drilled 3 successful gas wells on a portion of these lands in which it holds a 60% working interest. Merrill now holds interests in 5 gas wells in this area which are due to go on production later this year.

Merrill drilled 5 successful gas wells on 3,200 acres in the Wainwright area. The Company holds a 64% working interest in 4 of these wells and a 16% interest in the fifth well. A pipeline is under construction to tie in 3 of these wells for production by December, 1975.

The Company holds a 20% working interest in a discovery gas well drilled in the Lundbreck area of the southern Alberta foothills on 59,800 acres. Merrill and its partners have acquired substantial acreage holdings on a number of potential gas prospects elsewhere in the Alberta foothills. Further drilling is planned for later this year.

Merrill has a 9% working interest in 7,360 lease acres in the Medicine Hat-Schuler field on which 19 shallow gas wells were drilled in late 1974. These wells, together with 4 other wells previously drilled on this property, were placed on production in January, 1975. Seven additional wells will be drilled by December, 1975.

Merrill also participated in drilling 2 gas wells in the Plain Lake field and a gas well in the Birch Lake field in other 1975 Alberta drilling. These wells have all been placed on production. An additional 4 wells will be drilled on Company acreage in the Plain Lake field this year.

BRITISH COLUMBIA

The proposed testing of the Company's oil discovery in the Fox area and the drilling of development wells were not carried out due to government legislation which had a detrimental effect on the resource industries. Recent developments have encouraged the resumption of exploratory work and we now plan to complete the discovery well and drill 2 additional wells in 1976.

PRODUCTION

	1975	1974	1973
Natural Gas Production			
(Before Royalties)			
Total — million cubic feet	**7,068**	5,482	3,963
Daily average — million cubic feet	**19.4**	15.0	10.9
Average price per thousand cubic feet	**41.7¢**	22.5¢	17.0¢
Oil Production			
(Before Royalties)			
Total — barrels	**181,245**	204,695	166,010
Daily average — barrels	**497**	561	455
Average price per barrel	**$7.84**	$4.94	$3.28
Number of Net Productive Wells			
Gas	**88.2**	63.1	59.9
Oil	**58.9**	51.8	51.4

WYOMING

The Company participated in the drilling of one oil well in the Homestead field, Wyoming. This well, in which Merrill holds a 62.5% interest, went on production in April at 190 barrels oil per day at a price of $11 per barrel. The Company holds other leases offsetting and in close proximity to this well and seismic information is being reviewed to determine future drilling plans.

Merrill holds a 640-acre lease offsetting Amoco Prod 1 Bitter Creek II Unit well which was drilled to a total depth of 21,322 feet. This well flowed 1.7 million cubic feet per day from a Cretaceous sand.

OKLAHOMA

Merrill participated in the drilling of one gas well (25% interest) in Beaver County. This well was placed on production in June at a rate of one million cubic feet per day. Present gas price in this area is 50¢ per thousand cubic feet.

PERU

The Company withdrew from its participation in an exploration program in Northern Peru in late 1974. This action was necessary as it was considered impractical to meet the additional work requirements set by the Peruvian Government in order to recognize Merrill's interest in the Block 4 exploratory contract. Essentially all of the Company's investment in this program was recovered.

RESERVES

Last year Merrill reported its reserves on the basis of proved and probable reserves before royalties. Additional changes in the royalty structure, the methods of tax calculation and tax relief programs make it advisable to continue this practice.

The gross reserves, as evaluated by independent consulting engineers and Merrill's staff, indicate the Company's interest in proved and probable reserves before deducting royalties. These reserves are estimated as follows:

GROSS RESERVES	June 30, 1975	June 30, 1974
Natural Gas (billion cubic feet)	257	185
Crude Oil (barrels)	1,538,000	1,754,000

Gas reserves increased as a result of the purchase of the Limited Partners' interests and additional drilling. Oil reserves showed a reduction due to 1975 production and a downward adjustment of remaining reserves based on current production data.

ACREAGE HOLDINGS

At June 30, 1975, the Company and its wholly-owned subsidiaries held interests in 806,037 gross acres, equivalent to 362,717 net acres as indicated in the accompanying comparative table.

The substantial reduction in gross and net acreage resulted from the withdrawal from the Peru program and the surrender of the North Sea acreage.

ACREAGE	June 30, 1975		June 30, 1974	
	Gross	Net	Gross	Net
Alberta	513,422	300,172	389,000	216,414
British Columbia	10,828	4,471	12,262	2,767
Saskatchewan	400	304	480	312
Arctic Islands	114,146	19,028	151,839	25,307
Eastcoast Offshore	72,169	6,014	72,169	12,028
United States	95,072	32,728	70,469	36,128
Peru	—	—	2,470,000	308,750
U.K. North Sea	—	—	66,000	3,041
Total	806,037	362,717	3,232,219	604,747

Service, Sales & Rentals

The Company's well servicing division, Baldwin & Knoll Limited, faced a difficult operating year in 1975 due to a general decline in industry activity and sharply increased operating and material costs. The division achieved a slight increase in gross revenues due to the acquisition of affiliated companies and higher servicing rates. However, this did not offset major operating cost increases that resulted in a loss of $140,000 for this division compared with a profit of $382,000 in 1974.

Our rental and sales division, L & M Oilfield Equipment Ltd., also had declining revenues and net income compared with 1974.

Merrill is disposing of its well servicing and equipment rental assets following its decision to concentrate on the acquisition, exploration, development and production segments of the oil and gas industry. Subsequent to year-end, the Company sold 24 service rigs for a total consideration of $3,000,000.

Mining

Merrill's contract milling operation conducted on behalf of the Icon Sullivan Joint Venture at Chibougamau, Quebec, terminated on July 1, 1975 with the end of production from the Icon mine. During the 1975 fiscal year, 142,000 tons of ore were processed to yield 8,956,000 pounds of copper. This compares with 198,000 tons of ore and 10,988,000 pounds of copper in the previous year.

There have been no further developments during the year on the Perch River Prospect. In the LaSarre area, west of Mattagami, Quebec, the Company carried out ground work on anomalies previously indicated by airborne surveys. A number of claims were staked near the Selco base metals discovery. Detailed ground work is planned for 1976 and may be followed by selective diamond drilling.

Canadian Merrill Ltd.

Consolidated Statement of Operations

(in Canadian dollars)

	Year ended June 30 1975	1974
Revenues:		
Sales and other operating revenues	$11,913,000	$10,073,000
Interest and other income	157,000	190,000
	12,070,000	10,263,000
Costs and expenses:		
Direct cost of sales and operations including royalties	6,956,000	5,574,000
Indirect costs including general and administrative	1,906,000	1,696,000
Interest on long term debt	656,000	496,000
Interest on income debenture	260,000	87,000
Interest — other	112,000	164,000
Mining exploration	54,000	43,000
	9,944,000	8,060,000
Funds generated from operations before current income taxes	2,126,000	2,203,000
Provision for depletion, depreciation and amortization	(1,449,000)	(1,048,000)
Amortization of goodwill	(65,000)	(61,000)
Gain on sale of properties and equipment	281,000	126,000
Equity in net incomes of affiliated companies	22,000	18,000
	(1,211,000)	(965,000)
	915,000	1,238,000
Income taxes (Note 10):		
Current (Recovery)	(276,000)	154,000
Deferred	752,000	428,000
	476,000	582,000
Minority interest	2,000	6,000
	478,000	588,000
Income before extraordinary items (Note 1)	437,000	650,000
Provision for decline in value of investments	(300,000)	(300,000)
Gain on sale of investments	—	38,000
Reduction of income taxes (Note 10)	358,000	—
Net income for the year	$ 495,000	$ 388,000
Income per common share (Note 1):		
Before extraordinary items	$ 0.22	$ 0.32
Extraordinary items	0.03	(0.13)
Net income for the year	$ 0.25	$ 0.19

Canadian Merrill Ltd.

Consolidated Statement of Changes in Financial Position

(in Canadian dollars)

	Year ended June 30	
	1975	1974
Working capital was provided by:		
Operations —		
Funds generated from operations before current income taxes	$ 2,126,000	$2,203,000
Less: Current income taxes (recovery)	(276,000)	154,000
	2,402,000	2,049,000
Extraordinary items —		
Sale of investments	—	236,000
	2,402,000	2,285,000
Issue of 6½% secured convertible income debenture	—	4,000,000
New long term debt	10,076,000	336,000
Peru exploration expenditures recovered	1,047,000	—
Sale of properties and equipment	1,255,000	448,000
Decrease in advances to drilling fund programs	852,000	—
Other	39,000	—
	15,671,000	7,069,000
Working capital was used for:		
Additions to properties and equipment	13,482,000	2,304,000
Peru exploration expenditures	1,075,000	—
Increase in advances to drilling fund programs	—	88,000
Decrease in deferred oil and gas revenue	170,000	96,000
Purchase of investments	—	22,000
Reduction of long term debt	2,803,000	1,659,000
Advances (repayments) to affiliated companies	76,000	(18,000)
Deferred exploration costs	—	111,000
Acquisition of shares of subsidiaries (Note 6(b))	223,000	—
Other	5,000	49,000
	17,834,000	4,311,000
(Decrease) increase in working capital for the year (Note 2)	(2,163,000)	2,758,000
Working capital (deficiency) beginning of year	1,134,000	(1,624,000)
Working Capital (deficiency) end of year	$(1,029,000)	$1,134,000

Canadian Merrill Ltd. (Governed by the Quebec Companies Act)

Consolidated Balance Sheet

(in Canadian dollars)

	June 30 1975	June 30 1974
assets		
Current assets:		
Cash and deposit receipts	$ —	$ 1,574,000
Accounts receivable (Note 3)	3,000,000	2,733,000
Royalty rebate recoverable (Note 10)	252,000	—
Inventories (Note 4)	359,000	410,000
Prepaid expenses	75,000	68,000
	3,686,000	4,785,000
Interest bearing advances — drilling fund programs (Note 5)	—	104,000
Investments (Note 6):		
Companies for which there is a quoted market value	304,000	604,000
Affiliated companies	53,000	268,000
	357,000	872,000
Properties and equipment, at cost (Note 7)	29,862,000	16,899,000
Less: Accumulated depletion and depreciation	5,840,000	4,582,000
	24,022,000	12,317,000
Deferred costs (Note 1)	356,000	398,000
Other assets, at cost	40,000	57,000
Goodwill (Note 1), less amortization of $193,000 (1974 — $128,000)	988,000	1,050,000
	$29,449,000	$19,583,000

APPROVED BY THE BOARD:

H. J. MOCKLER, Director.

H. REKUNYK, Director.

Auditors' Report

To the Shareholders of
Canadian Merrill Ltd.

We have examined the consolidated balance sheets of Canadian Merrill Ltd. and its subsidiaries as at June 30, 1975 and 1974, and consolidated statements of operations and changes in financial position for the years then ended, and have obtained all the information and explanations we have required. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

	June 30	
	1975	1974
liabilities		
Current liabilities:		
Bank demand loans and indebtedness (Note 8)	$ 611,000	$ 277,000
Accounts payable and accrued	1,962,000	2,177,000
Current portion of long term debt	2,142,000	1,197,000
	4,715,000	3,651,000
Long term debt (Note 9)	14,847,000	6,827,000
Deferred oil and gas revenue	—	170,000
Deferred income taxes (Note 10)	2,088,000	1,637,000
Minority interests	24,000	18,000
shareholders' equity		
Capital stock (Note 11):		
Authorized —		
2,000,000 preferred shares of $5 par value		
10,000,000 common shares of no par value		
Issued —		
2,013,920 common shares	6,692,000	6,692,000
Retained earnings (Note 12)	1,083,000	588,000
	7,775,000	7,280,000
Contingent liabilities and commitments (Note 13)		
	$29,449,000	$19,583,000

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at June 30, 1975 and 1974, and the results of their operations and the changes in their financial positions for the years then ended, in accordance with generally accepted accounting principles consistently applied.

Calgary, Canada,
September 24, 1975, except as
to Note 3 (ii) as to which
the date is October 3, 1975.

PRICE WATERHOUSE & CO.,
Chartered Accountants

Notes to Consolidated Financial Statements

at June 30, 1975 and June 30, 1974

1. Summary of significant accounting policies:

Principles of consolidation —

The consolidated financial statements include the accounts of Canadian Merrill Ltd. and its subsidiaries, all of which (except for two which are 80% owned) are wholly-owned.

The equity method of accounting for investments in affiliated companies (20% to 50% owned) is followed.

In the case of acquisitions accounted for as purchases, the cost of investment in such subsidiaries in excess of the estimated value of the underlying net tangible assets at dates of acquisition, "Goodwill", is being amortized by charges against operations over a twenty-year period on a straight-line basis.

Inventories —

Inventories for resale are valued at the lower of average cost or net realizable value. Inventories of mill supplies are valued at the lower of average cost or replacement cost.

Oil and gas drilling fund programs —

Pursuant to the authority granted to it as manager of oil and gas drilling fund programs, a subsidiary company, Provident Resources Ltd., finances continuing programs' activities by term production bank loans, secured by assignments of title to certain program properties. Advances to programs are considered to be eliminated on allocation of such loans as outlined in Note 5.

Investments in companies for which there is a quoted market value —

These investments are carried at the lower of cost or estimated ultimate realizable value.

Properties and equipment — depletion, depreciation and amortization —

Oil and gas properties and equipment —

The companies follow the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs include acquisition costs, geological costs, exploration overhead, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells. Production equipment and gas facilities are recorded at cost. Depletion and depreciation are provided for by the unit of production method based on total estimated proven reserves of oil and gas. No gains or losses are recognized upon the sale or disposition of properties except under circumstances which result in major disposals of reserves.

Buildings, service rig equipment and rental equipment —

These costs are depreciated over the estimated useful lives of such assets using the straight-line method, except for other equipment which is depreciated by the declining balance method.

Additions, improvements and repairs and maintenance that significantly add to productive capacity or extend the life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to income as incurred.

Depreciation rates are as follows:

	Rate per annum
Buildings	3 -12 1/2%
Service rig equipment	6 2/3%
Rental equipment	6 2/3-20 %
Other equipment including automobiles, furniture and fixtures	20 -30 %

Mining — mill buildings, equipment and related replacement parts —

Mining — mill buildings and equipment have been depreciated to present estimated salvage value. Depreciation to date was based on the estimated life of a copper ore body, production from which has virtually ceased. Commencing in fiscal 1976, the remaining undepreciated costs, together with the cost of related mill supplies (primarily replacement parts) are to be amortized over a period of seven years, the approximate remaining life of the lease with respect to the land upon which these assets are situated.

Deferred costs —

With the exception of exploration costs related to the Perch River, Quebec mining claims, all such costs have been written off. While work to date has not established a proven ore reserve, the Company intends to continue to hold the Perch River claims for an indefinite period during which time further exploration and/or sale possibilities will be considered. Commencing in fiscal 1976, these deferred costs are to be amortized over a seven year period. (At June 30, 1974, deferred costs also included $42,000 of unamortized costs of a preconcentrator; these costs were written off during fiscal 1975.)

Income taxes —

The companies follow tax allocation accounting whereby deferred income taxes are provided to the extent that current income taxes have been reduced as a result of claiming deductions for capital cost

allowances and drilling, exploration and lease acquisition costs in excess of the related charges in the accounts.

Income per common share —

Income per common share has been calculated in accordance with Canadian practice by dividing income by the weighted average number of common shares outstanding during each year. No dilution of earnings per share would result assuming conversion of the secured income debenture and exercise of outstanding options. Income per share, calculated in accordance with United States practice is not materially different.

Extraordinary items —

The companies follow Canadian practice with respect to the definition of extraordinary items. The extraordinary items, shown in the consolidated statement of operations, (except for the income tax reduction) would be considered ordinary items under United States practice; income per common share before extraordinary items would be reduced accordingly but net income would remain unchanged.

2. Changes in components of working capital:

	1975	1974
Increase (decrease) in current assets —		
Cash and deposit receipts	$(1,574,000)	$1,442,000
Accounts receivable	267,000	759,000
Royalty rebate recoverable	252,000	—
Inventories	(51,000)	57,000
Other	7,000	6,000
	(1,099,000)	2,264,000
Less: Decrease (increase) in current liabilities —		
Bank demand loans and indebtedness	(334,000)	913,000
Accounts payable and accrued	215,000	(443,000)
Current portion of long term debt	(945,000)	24,000
	(1,064,000)	494,000
(Decrease) increase in working capital	$(2,163,000)	$2,758,000

3. Accounts receivable:

	1975	1974 (restated)
Trade	$2,940,000	$2,648,000
Quebec sales tax reassessment, under appeal (Note 13)	52,000	—
Due from an officer	7,000	54,000
Due from a company, controlled by a director and officer (i) (ii)	1,000	31,000
	$3,000,000	$2,733,000

(i) This account had an average receivable balance of $55,000 during fiscal 1975 and an average $51,000 payable balance during fiscal 1974.

(ii) Subsequent to June 30, 1975, this account balance increased by $140,000; the resulting balance was repaid in full on October 3, 1975.

4. Inventories:

	1975	1974
New and used oilfield equipment for resale	$ 359,000	$ 317,000
Mill supplies (primarily replacement parts)	—	93,000
	$ 359,000	$ 410,000

5. Interest bearing advances — drilling fund programs:

As outlined in Note 1, advances to drilling fund programs are considered to be eliminated on allocation of term production bank loans so obtained.

	1975	1974
Amounts charged to drilling fund programs	$ 399,000	$1,251,000
Term production bank loans allocated	399,000	1,147,000
Advances to drilling fund programs	$ —	$ 104,000

During fiscal 1975, the Company invited the drilling fund program participants to offer to sell their petroleum and natural gas interests to the Company. Offers totalling approximately $7,500,000 were accepted by the Company. As a result $1,060,000 of bank loans were assumed by the Company.

6. Investments:

(a) Companies for which there is a quoted market value —

	1975		
Shares of:	Original cost	Carried value	Quoted market value
Magnetics International Ltd. (i)	$ 622,000	$150,000	$186,000
New Hosco Mines Ltd.	523,000	80,000	81,000
Other	268,000	74,000	125,000
	$1,413,000	$304,000	$392,000

(i) Subsequent to June 30, 1975, this investment was sold for cash equal to its carried value.

(b) Investments in affiliated companies —

	1975	1974
Shares, at cost plus equity in undistributed net income since acquisition	$ 7,000	$ 99,000
Deferred gain on sale of equipment	(10,000)	(23,000)
Interest bearing advances	56,000	192,000
	$53,000	$268,000

At June 30, 1974, there were three 50% owned affiliated companies engaged in the well servicing business. During fiscal 1975 the balance of the outstanding share capital of two of these companies was acquired. The acquisitions were accounted for as purchases. The Company's share of net income to dates of acquisition (January, 1975) was accounted for by the equity method; subsequent to acquisition, results were consolidated.

The following outlines the purchase consideration and assets acquired:

Consideration for shares — cash and notes		$200,000
Working capital deficiency acquired		30,000
Elimination of deferred gain		(7,000)
		$223,000
Book value of equipment		$485,000
Excess of purchase consideration over net book value of shares acquired		91,000
Total of equipment		576,000
Other assets		2,000
		578,000
Less:		
Non-current liabilities	$298,000	
Deferred income taxes	57,000	
		355,000
		$223,000

On a pro-forma basis, results of operations would have been as follows if it were assumed that the acquisitions had taken place at the beginning of fiscal 1974:

	1975	1974
Total revenues	$12,792,000	$11,572,000
Net income before extraordinary items	$ 452,000	$ 679,000
Per common share	$ 0.22	$ 0.34
Net income for year	$ 510,000	$ 417,000
Per common share	$ 0.25	$ 0.21

7. Properties and equipment:

	1975	1974
Cost:		
Land and buildings	$ 622,000	$ 831,000
Petroleum and natural gas properties	20,033,000	8,618,000
Service rig equipment	5,613,000	4,632,000
Rental equipment	1,128,000	902,000
Other equipment	1,057,000	596,000
Mining — mill buildings, equipment and related replacement parts (Note 1)	1,409,000	1,320,000
	$29,862,000	$16,899,000
Accumulated depletion and depreciation:		
Buildings	$ 175,000	$ 331,000
Petroleum and natural gas properties	1,532,000	814,000
Service rig equipment	2,339,000	1,958,000
Rental equipment	216,000	141,000
Other equipment	467,000	287,000
Mining — mill buildings, equipment and related replacement parts (Note 1)	1,111,000	1,051,000
	$ 5,840,000	$ 4,582,000

8. Bank loans and indebtedness:

Bank loans and indebtedness are secured by a general assignment of accounts receivable, a floating charge debenture covering the assets of certain subsidiary companies and an assignment of the companies' interest (as well as the interests of the drilling fund programs) in petroleum and natural gas properties, together with specific assignments of production therefrom. Interest on demand loans is presently 1/2 of 1% over the Canadian prime rate.

9. Long term debt:

	1975	1974
Secured convertible income debenture, payable to a 29% shareholder, interest at 6½%, due October 31, 1989, repayable in annual instalments of $400,000 commencing on October 31, 1980; convertible into common shares at $6 per share to February 28, 1979 and $7 per share thereafter to February 28, 1984; secured by a first floating charge on all of the property and assets of the Company subject to specific permitted encumbrances and a pledge of the shares of the subsidiaries of the Company, includes restrictions as to acquisition and disposition of assets, indebtedness, amalgamation, authorization and issuance of share capital	$ 4,000,000	$4,000,000
Term production bank loans, interest at ½ to ¾ of 1% over the Canadian prime rate, evidenced by demand notes, secured as outlined in Note 8, repayable monthly, to mature 1978 - 1982	12,788,000	2,896,000
Term bank loans, interest at 1¾% over the Canadian prime rate, secured as outlined in Note 8, repayable monthly to 1977	—	964,000
Other loans, notes payable and mortgages, interest at 0 - 13%, secured by specific properties or assignments, due on various dates to 1984	201,000	164,000
	16,989,000	8,024,000
Less: Current portion of long term debt	2,142,000	1,197,000
	$14,847,000	$6,827,000

Principal repayments over the next five years are as follows:

1976	$2,142,000
1977	$2,770,000
1978	$2,770,000
1979	$2,525,000
1980	$1,532,000

10. Income taxes:

The Company and each of its subsidiaries are required to file separate tax returns. Prior to fiscal 1975, provisions for current and deferred income taxes, recorded in the consolidated financial statements, related solely to the subsidiary companies. No provision for income taxes was required in the accounts of Canadian Merrill Ltd. (as a corporation) since its operations, to June 30, 1974, resulted in accounting losses. On a cumulative basis to June 30, 1974, its costs and expenses charged to operations exceeded the corresponding amounts deducted for tax purposes by approximately $3,900,000 of which approximately $50,000 arose during fiscal 1974. Since the realization of the related possible future tax benefits (up to $1,365,000 assuming an effective tax rate of 35%) was not virtually assured, they have not been recorded in the accounts. Fiscal 1975 operations of Canadian Merrill Ltd. (as a corporation) resulted in accounting income. The fiscal 1975 consolidated provision for deferred income taxes includes the taxes (based on a historical rate of 35%) which would have been payable on this accounting income had these taxes not been reduced (eliminated) by deducting previously unclaimed costs in excess of the related amounts charged to operations in fiscal 1975. This reduction in taxes otherwise payable has been shown as an extraordinary item in fiscal 1975. As a result of the foregoing, the excess of approximately $3,900,000 has been reduced to approximately $2,900,000 at June 30, 1975 and the related unrecorded possible future tax benefits have been reduced to approximately $1,000,000 based on a historical tax rate of 35%.

During fiscal 1975, several amendments were made to the Canadian Income Tax Act that will significantly increase the income taxes of the resource industries. The main amendments resulted in royalties and similar payments to governments no longer being deductible and in limitations being imposed on the deduction of certain development expenses and depletion allowances; rates of income tax applicable to resource production profits were reduced. Further amendments were proposed in a June, 1975 Federal budget which, if enacted, would become effective on January 1, 1976. Responding to the actions of the Canadian Government, some provinces have enacted legislation providing for certain rebates in order to provide some measure of relief to resource companies.

The consolidated provision for income taxes is comprised of the following:

	Current Tax	Deferred Tax
Provisions (recoveries):		
Canadian Merrill Ltd. — based on a historical rate of 35%	$ —	$358,000
Subsidiaries — at current rates	(20,000)	475,000
	(20,000)	833,000
Estimated provincial rebates	(256,000)	(81,000)
	$(276,000)	$752,000

Royalties and similar payments to provincial governments, interest on the secured income debenture, goodwill amortization and certain other charges, that are not deductible for tax purposes, result in increased tax provisions.

11. Capital stock:

During fiscal 1974, an additional 6,000,000 common shares of no par value were authorized.

Of the authorized but unissued common shares, 791,167 were reserved at June 30, 1975 for the following:

Secured convertible income debenture (Note 9)	666,667
Employees and officers—under the Incentive Stock Option Plan, options to purchase 109,950 shares (at prices from $5.00 to $6.50) are exercisable cumulatively in five equal annual instalments to May, 1979	124,500
	791,167

12. Consolidated retained earnings:

	1975	1974
Balance, beginning of year	$ 588,000	$ 200,000
Net income for the year	495,000	388,000
Balance, end of year	$1,083,000	$ 588,000

13. Contingent liabilities and commitments:

On November 19, 1972 a suit was filed, in the United States, by an investor in Provident Oil and Gas Year End Program 1970 claiming $60,000 plus interest to date or an unspecified amount of damages. Answers

have been filed denying the claim. In the opinion of management, the claim is unfounded.

To the extent that bank loans referred to in Note 5 are not repaid from the proceeds of production from, or sale of, program properties, Provident would be directly liable.

Included in accounts receivable is an amount of $52,000 with respect to a Quebec sales tax reassessment, under appeal, relating to years prior to fiscal 1974. The 1969 to 1971 and 1973 to 1974 periods were not completely reassessed; if they are, on the same basis, an additional amount of $30,000 could become payable. In the opinion of management, the Company will not suffer any significant loss.

The companies have commitments in the normal course of business, including Provident Resources Ltd. agreements to manage the drilling fund programs.

14. Remuneration of directors and officers:

The Company has eight directors who received fees of $10,600 ($16,200 — 1974) and eight officers, five of whom are also directors, who received remuneration of $285,132 ($247,025 — 1974) in their capacity as officers.

15. Peru exploration agreements:

At June 30, 1974, the Company was party to agreements which, upon certain conditions being satisfied, would have resulted in the acquisition of a 12½% undivided interest in a contract providing for the exploration and development of a specific area in Peru. Funds were advanced during fiscal 1975 but were refunded when the interest could not be assigned to the Company. Net costs of $28,000 have been charged to current operations.

16. Subsequent events:

Subsequent to June 30, 1975, a plan to dispose of the well servicing segment of the Company's business was adopted. To September 24, 1975, agreements were reached resulting in the sale of seventeen service rigs (including the shares of an 80% owned subsidiary) and negotiations were underway for the sale of a further nine rigs and land and buildings. It is anticipated that these sales will be completed and that the remaining ten rigs will be sold within the next six months. The plan also contemplates the disposal of the Company's equipment rental and sales division following completion of the disposal of the well servicing division.

The assets related to the disposal of these divisions are summarized below. Balances are as at June 30, 1975. The division's liabilities are to be paid; they are not to be assumed by the purchasers:

Inventory — new and used oilfield equipment . . .	$ 359,000
Properties and equipment, less accumulated depreciation	5,028,000
Goodwill, less amortization	988,000
	$6,375,000

To September 24, 1975 cash of $1,808,000 had been received with respect to sales completed to that date. It is expected that the net proceeds from the disposal of the well servicing and equipment rental and sales divisions will be approximately $7,300,000.

The following outlines the revenues and income from continuing operations and from the operations of these divisions:

	1975	1974
Operations to be continued:		
Sales and other operating revenues	$4,737,000	$2,966,000
Income before income taxes and extraordinary items	$ 487,000	$ 230,000
Net income before extraordinary items	$ 250,000	$ 171,000
Earnings per share	$ 0.13	$ 0.08
Operations to be discontinued:		
Sales and other operating revenues	$7,176,000	$7,107,000
Income before income taxes and extraordinary items	$ 428,000	$1,008,000
Net income before extraordinary items	$ 187,000	$ 479,000
Earnings per share	$ 0.09	$ 0.24

(Under United States practice, income from operations to be discontinued would be shown separately, as a one line item, in the consolidated statement of operations.)

Five Year Financial Review

(Thousands of dollars, except per share amounts)

	Year Ended June 30				
	1975	1974	1973	1972	1971
Revenues:					
Sales and other operating revenues	$11,913	$10,073	$7,918	$1,309	$ 722
Interest and other income	157	190	80	79	142
	12,070	10,263	7,998	1,388	864
Costs and Expenses:					
Production expense	672	456	324	139	86
Royalty expense	1,241	480	191	68	53
Operating costs — well servicing	3,897	3,231	2,596	308	—
Direct costs of equipment sales & rentals	1,146	1,407	1,681	16	—
Indirect costs including general and administrative	1,906	1,696	1,090	397	328
Interest on long term debt	656	496	353	106	—
Interest on income debenture	260	87	—	—	—
Interest — other	112	164	46	33	—
Mining exploration	54	43	60	159	190
Costs incurred re acquisition of Provident	—	—	—	83	—
	9,944	8,060	6,341	1,309	657
Cash Flow from Operations, before income taxes	2,126	2,203	1,657	79	207
Per common share	$ 1.06	$ 1.09	$ 0.82	$ 0.05	$0.12
Depreciation and depletion	(1,449)	(1,048)	(735)	(204)	(121)
Amortization of goodwill	(65)	(61)	(56)	(8)	—
Gain on sale of properties & equipment	281	126	107	—	(8)
Equity in net income (losses) of affiliates	22	18	21	(131)	(69)
Mineral & mining claims surrendered or written off	—	—	(5)	(270)	(11)
	(1,211)	(965)	(668)	(613)	(209)
	915	1,238	989	(534)	(2)
Income Taxes					
Current (Recovery)	(276)	154	75	16	—
Deferred	752	428	431	24	125
	476	582	506	40	125
Minority interest	2	6	12	1	—
	478	588	518	41	125
Income (loss) Before Extraordinary Items	437	650	471	(575)	(127)
Per Common Share	$ 0.22	$ 0.32	$ 0.24	$ (0.34)	$(0.08)
Provision for decline in value of marketable securities	(300)	(300)	—	(670)	—
Gain on foreign exchange	—	—	—	—	13
Gain (loss) on sale of shares	—	38	(28)	—	—
Gain on sale of drilling rig (net of $56,000 taxes)	—	—	59	—	—
Reduction of income taxes	358	—	—	—	—
Net Income (loss) for the Year	$ 495	$ 388	$ 502	$(1,245)	$(109)
Per Common Share	$ 0.25	$ 0.19	$ 0.25	$ (0.74)	$(0.07)

Canadian Merrill Ltd.

Relative Contributions of Lines of Business

(Unaudited)
(In thousands of dollars)

	Year Ended June 30				
	1975	1974	1973	1972	1971
Revenues: (1)					
Oil and gas	$ 4,554	$ 2,486	$1,474	$ 549	$ 493
Mining and milling revenue from joint venture	183	480	261	288	229
Well servicing	5,022	4,840	3,697	438	—
Oilfield equipment rental & resale	2,154	2,267	2,486	34	—
	$11,913	$10,073	$7,918	$1,309	$ 722
Income (Loss) Before Income Taxes and extraordinary items: (1)					
Oil and gas	$ 333	$ 155	$ 256	$ (48)	$ 239
Mining and milling (2)	(141)	(76)	(150)	(129)	(295)
Well servicing	(140)	382	422	44	—
Oilfield equipment rental & resale	468	504	315	4	—
	520	965	843	(129)	(56)
Add (Deduct):					
Mineral interests surrendered and mining claims written off	—	—	(6)	(270)	(11)
Costs incurred to acquire Provident	—	—	—	(83)	—
Equity in net income (losses) of unconsolidated subsidiary and affiliates	22	18	21	(131)	(69)
Income from and gains on investments	157	190	80	79	134
Gains on sales of properties and equipment	281	126	107	—	—
Amortization of goodwill	(65)	(61)	(56)	—	—
	$ 915	$ 1,238	$ 989	$ (534)	$ (2)

The above table indicates the approximate relative contributions (in thousands of dollars) of Merrill's various businesses to its consolidated revenues and income before income from and gains on investments, costs incurred in connection with the acquisition of Provident, mineral interests and related deferred costs written-off, other gains and equity income (losses), amortization of goodwill, taxes and extraordinary items. The compilation has been prepared by management and has not been subject to independent verification by Merrill's auditors.

Notes:

(1) Reference should be made to the consolidated financial statements of Merrill included elsewhere in this Annual Report. The above figures do not reflect minority interests or revenues and incomes applicable to Baldwin & Knoll Limited and L & M Oilfield Equipment Ltd. prior to their acquisition in May, 1972 that were accounted for as "purchases".

(2) Included in the determination of Income (loss) from mining and milling activities was the deduction of the following amounts of mining exploration expenses incurred for the respective periods: 1971 — $190,000; 1972 — $159,000; 1973 — $60,000; 1974 — $43,000; 1975 — $54,000.

Management's Discussion and Analysis of The Summary of Operations

FISCAL 1975 COMPARED TO FISCAL 1974

Revenue from oil and gas operations increased significantly as the result of (a) higher production of natural gas (up 29%), primarily from the purchase of producing properties from former participants of Provident sponsored drilling fund programs effective January 1, 1975 and new reserves put on production in January, 1975, (b) higher average wellhead prices for natural gas, and (c) higher average wellhead prices for crude oil despite a decline in actual production. However, offsetting these revenue gains were even more significant increases in Government royalties, averaging over 27% of gross revenues for 1975 versus approximately 19% for 1974.

Revenue from custom milling operations declined by $297,000 thereby directly affecting cash flow and profitability. Lower prices for copper concentrates, lower production and increased operating costs reduced the overall profitability of the Icon Sullivan Joint Venture, from which Merrill derived its 10% net profits interest.

Revenue from the well servicing operations was slightly higher due to the acquisition of two service subsidiaries in January, 1975 (both formerly were affiliates). While well servicing revenue rate increases of 19% were achieved, a 15% decline in service hours worked coupled with a 21% increase in labor and operating costs more than offset these rate gains resulting in an unacceptably low operating margin. The decline in service activity reflected the uncertainty that prevailed in the oil industry as a result of higher royalties and taxes combined with restrictions on oil exports to the United States.

Revenue from the equipment rental and sales division declined primarily as the result of lower sales of new and used equipment. Rental revenue remained virtually unchanged. However, higher direct costs of sales and rentals and general and administrative costs reduced the overall profitability of this division by approximately 10%.

Increased activity in the oil and gas division, particularly the purchase of proven reserves, required an increase in bank borrowings, resulting in substantially higher interest costs.

Fee income and recoveries of technical and administrative overhead were $225,000 lower since Provident did not sponsor a 1974 Drilling Fund Program. As a result, net indirect costs, including general and administrative costs, were higher with a corresponding reduction in the profitability of the oil and gas division.

FISCAL 1974 COMPARED TO FISCAL 1973

Revenue from oil and gas operations increased as the result of the combination of higher production for both natural gas and oil together with higher average prices received at the wellhead.

Revenue from custom milling operations increased significantly as the result of the high prices for copper production during the latter part of 1973 and to June 30, 1974.

Revenue from well servicing operations was higher as the result of a 5% increase in service hours worked and a 23% increase in hourly well service rates. Since rate increases kept pace with the increase in labor and operating costs an acceptable level of operating profit was achieved.

Revenue from equipment rentals for the 1974 period was higher primarily because of a larger inventory of equipment available for rental and increased demand in the industry. Offsetting this increase in rental revenue was a decrease in the sales of new and used equipment as the result of shortages of such equipment

for resale. Accordingly, direct costs of sales and rentals declined even though overall equipment rental and sales revenue was virtually unchanged.

Indirect costs, including general and administrative, include approximately $150,000 of special accounting and legal fees associated with a Form S-1 Registration Statement filed with the S. E. C. and legal fees associated with litigation concluded during the same period. Recoveries of overhead from Provident sponsored drilling fund programs were $125,000 lower than 1973 and coupled with higher salary costs, including the addition of technical staff, reduced oil and gas income significantly.

FISCAL 1973 COMPARED TO FISCAL 1972

Revenue from oil and gas operations increased as the result of a combination of higher production and slightly higher average wellhead prices for gas and oil. Higher gas and oil production results primarily from the purchase of producing properties from former participants of Provident sponsored drilling fund programs effective January 1, 1972 and the purchase of producing oil reserves in the United States in November, 1972.

Revenue from well servicing and equipment rental and sales represents the first full year of operations for these divisions consolidated into the Merrill operations as compared with only the month of June for the 1972 period. Indirect costs, including general and administrative costs, for 1973 include approximately $610,000 related to the well servicing and equipment rental and sales divisions whereas these costs are included in the 1972 operations for one month only.

Interest costs increased due to bank borrowings to finance the purchase of producing oil and gas properties.

STOCK PRICE

The following table indicates the quarterly high bid and low bid prices for the common stock of the Company on the Toronto Stock Exchange for the last two fiscal years of the Company.

	Fiscal 1975		Fiscal 1974	
First Quarter	$3.20	$2.00	$6.40	$5.30
Second Quarter	3.05	1.60	6.00	4.25
Third Quarter	3.80	1.80	5.50	4.50
Fourth Quarter	4.60	2.75	4.75	2.70

Canadian Merrill Ltd.

Principal Operating Subsidiaries of Canadian Merrill Ltd.
Baldwin & Knoll Limited
L & M Oilfield Equipment Ltd.
Provident Resources Ltd.

Head Office
Suite 400, 621 Craig Street West
Montreal, Quebec H3C 1A2

Stock Exchange Listings
Toronto Stock Exchange
Toronto, Ontario
Montreal Stock Exchange
Montreal, Quebec
American Stock Exchange
New York, New York

Auditors
Price Waterhouse & Co.
Chartered Accountants
Calgary, Alberta

Executive Office
Suite 630, I.B.M. Building
606 - 4th Street S.W.
Calgary, Alberta T2P 1T1

Transfer Agents & Registrar
The Canada Permanent Trust Company
Montreal, Quebec
Toronto, Ontario
Calgary, Alberta
The Canadian Bank of Commerce Trust Company
New York, New York

Bankers
The Royal Bank of Canada
Calgary, Alberta

lawson graphics weste
Litho'd in Canada.